

Message Text

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 5992, MARCH 7, 1975

1. SUMMARY. FRENCH ECONOMIC OUTLOOK - AS WELL AS
GOF ECONOMIC POLICY - CONTINUES TO PRESENT AMBIGUITIES
AND SEEMING CONTRADICTIONS. AS FAR AS CAN BE DISCERNED,
HOWEVER, MAIN THEMES APPEAR TO BE: (1) PROSPECT OF
SLUGGISH PERFORMANCE BY FRENCH ECONOMY THROUGHOUT 1975,
CONTRARY TO EARLIER HOPES THAT CORNER HAD BEEN TURNED;
AND (2) CONTINUED GOF ADHERENCE TO RESTRICTIVE ANTI-
INFLATIONARY POLICIES, EMBELLISHED FROM TIME TO TIME
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WITH "SMALL STEPS" TO BUOY UP INDUSTRY SUCH AS THOSE

ANNOUNCED MARCH 17 BY FINANCE MINISTER FOURCADE.
OFFICIAL FIGURES FOR FEBRUARY SHOW TRADE ACCOUNT IN
SURPLUS, WHILE UNEMPLOYMENT RATE CLIMBING STEADILY
TOWARD 4 PERCENT. END SUMMARY.

2. GOF BATTENS DOWN FOR STORMY SEAS -

BUFFETED BY ECONOMIC WINDS FROM SEVERAL QUARTERS (MOSTLY
ADVERSE; SEE PARA. 3 BELOW), GOF APPEARS PREPARED TO
RIDE OUT STORMY SEAS FOR SOME TIME WITHOUT RELENTING
IN ITS STABILIZATION PROGRAM. PUBLIC STATEMENTS IN
RECENT WEEKS BY PRESIDENT GISCARD D'ESTAING AND
FINANCE MINISTER FOURCADE (SEE REFTEL AND BELOW) HAVE
AMOUNTED TO REJECTION OF GROWING PRESSURE ON GOF TO
RE-STIMULATE ECONOMY IN MEANINGFUL WAY WHILE INFLATIONARY
FIRES STILL SMOLDERING. SUCH STIMULATIVE MEASURES
AS HAVE BEEN ANNOUNCED AMOUNT TO "SMALL STEPS", WITH
APPARENT OBJECTIVE OF APPEASING HARD-PRESSED SECTORS
OF INDUSTRY YET NOT SERIOUSLY RELAXING GOF'S TIGHT
GRIP ON DEFLATIONARY SCREWS. THIS WAS CASE ON MARCH 17,
WHEN FINANCE MINISTER FOURCADE ANNOUNCED SIX NEW
MEASURES "TO RE-STIMULATE FRENCH ECONOMY" BY ATTACKING
DECLINE IN CONSTRUCTION INDUSTRY AND PROMOTING INDUSTRIAL
INVESTMENTS (SEE PARIS 6939). ANNOUNCEMENT ENCOUNTERED
ALMOST IMMEDIATE DERISION FROM BUSINESS AND LABOR:
FRANCOIS CEYRAC, HEAD OF FRENCH PATRONAT (ROUGHLY
EQUIVALENT TO NAM), TERMED MEASURES "MODEST AND TIMID",
WHILE MAJOR TRADE UNION CFDT ACCUSED GOF OF "NOT
TAKING SITUATION SERIOUSLY."

ON MARCH 20, FOURCADE TOOK UP "GISCARDIAN"
DEFENSE OF ECONOMIC POLICYMAKING BY GOF, WHICH
HE SAID (SOMEWHAT DISINGENUOUSLY) "APPLIES MODERN
METHODS OF MANAGEMENT, REJECTS VAGUE TALK, AND GIVES
PRECISE OBJECTIVES AND AUTHENTIC RESULTS." FRANCE'S
CHOICE NOT ONE OF INFLATION OR UNEMPLOYMENT, HE SAID;
RATHER, PRICE STABILITY AND BALANCE-OF-PAYMENTS
EQUILIBRIUM FOREMOST OBJECTIVES, AS PREREQUISITES TO
"CONTINUOUS, NOT EPISODIC GROWTH."

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UNDAUNTED BY CONTRADICTIONS INHERENT IN POLICY
OF ADMINISTERING STRONG MEDICINE TOGETHER WITH MILD
STIMULANTS, GOF STILL HOLDING ON TO SLENDER HOPES FOR
REAL GROWTH IN 1975 OF SOME 3 PERCENT. WHILE SCALED
DOWN CONSIDERABLY FROM EARLIER FORECASTS, OFFICIAL
OBJECTIVE PINNED ALMOST ENTIRELY ON HOPES FOR UPSWING
DURING SECOND HALF IN FRANCE'S MAJOR TRADING PARTNERS
(ESPECIALLY GERMANY); AS SUCH, IT GOES AGAINST LOGIC OF

LATEST OECD REPORT ON EUROPEAN ECONOMIC OUTLOOK
RELEASED MARCH 18 - WHICH, IN CASE OF FRANCE, FORECAST
1975 REAL GROWTH OF ONLY 2 PERCENT (COMPARED TO 5-6
PERCENT ANNUAL AVERAGE IN RECENT YEARS).

3. BANK OF FRANCE REPORTS GRIM OUTLOOK FOR 1975 -

ANALYSES OF ECONOMIC TRENDS IN FRANCE ARE NEITHER
INFREQUENT NOR ENTIRELY CONSISTENT

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(INTERNALLY OR WITH OTHERS); NEVERTHELESS, OVERALL TONE
OF CURRENT REPORTS MARKEDLY MORE PESSIMISTIC THAN
HERETOFORE. AT TURN OF YEAR TENTATIVE SIGNS REPORTEDLY

DISCERNED THAT DOWNTURN IN FRENCH ECONOMY WAS "BOTTOMING-OUT", WITH IMPROVING TRADE ACCOUNT, MODERATING TENDENCIES ON INFLATION AND UNEMPLOYMENT FRONTS, AND EMERGING HOPEFULNESS AMONG BUSINESSMEN AND INDUSTRIALISTS (SEE PARIS 2151, 4673 AND REFTEL). AMONG THESE, ONLY TRADE FIGURES CONTINUE IMPROVEMENT (PARA. 5 BELOW), BUT POSSIBLY MOST TELLING SIGN IS LATEST REPORT BY BANK OF FRANCE - CUSTOMARILY MOST OPTIMISTIC OF ALL ANALYSTS, AND INVARIABLY IN STEP WITH GOF - WHICH NOW FORESEES "STAGNATION" AT PRESENT LEVELS FOR MONTHS TO COME IF NOT FOR ENTIRE YEAR.

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ACCORDING TO BOF SURVEY CONDUCTED DURING FEBRUARY, INDUSTRIAL PRODUCTION CONTINUES TO DECLINE WHILE BUSINESSMEN REPORT "PERSISTENT SLUGGISHNESS OF DEMAND." SOME RESPONDENTS OF BOF SURVEY INDICATED PLANS TO REDUCE THEIR OPERATIONS, NOT ONLY FOR MARCH BUT FOR FOLLOWING MONTHS AS WELL, CONVINCED THAT ANY STIMULATIVE MEASURES TAKEN BY GOF COULD NOT YIELD ANY NEAR-TERM IMPROVEMENT IN BUSINESS SITUATION. ONGOING DECLINE IN UNFILLED ORDERS PLUS MOUNTING UNUSED CAPACITY REPORTEDLY KEEPING DAMPER ON INVESTMENT INTENTIONS.

AMONG SECTORS, UNFILLED ORDERS FOR INTERMEDIATE GOODS DECLINED FURTHER IN FEBRUARY FROM "ALREADY VERY LOW" LEVELS WHILE INVENTORIES OF FINISHED GOODS CONTINUED TO GROW; PRODUCTION CUTBACKS WERE INDICATED FOR MARCH, ESPECIALLY IN BASIC METALLURGY. IN CAPITAL-EQUIPMENT SECTOR, OVERALL ACTIVITY REMAINS BELOW LEVEL OF 12 MONTHS PREVIOUSLY; UNFILLED ORDERS STILL AT LOW LEVEL - ALTHOUGH THEY REPORTEDLY ASSURE "SEVERAL MONTHS OF PRODUCTION" (AT WHAT LEVEL NOT SPECIFIED). OUTLOOK FOR CONSUMER-GOODS SECTOR STILL MIXED, WITH THE ONE HOPE HELD OUT THAT HOUSEHOLD PURCHASES MAY REGISTER NORMAL SEASONAL PICKUP DURING COMING MONTHS.

OVERALL LEVEL OF DOMESTIC DEMAND REMAINED SLUGGISH IN FEBRUARY - BUT FOREIGN ORDERS, WHICH PREVIOUS BOF REPORTS HAVE REGULARLY DESCRIBED AS "SUBSTANTIAL", ARE NOW TERMED "ERRATIC, DUE TO AN INCREASINGLY SEVERE INTERNATIONAL ECONOMIC SITUATION."

4. UNEMPLOYMENT RATE PUSHING 4 PERCENT -

THE NUMBER OF REGISTERED UNEMPLOYED (SEASONALLY ADJUSTED) ROSE TO 727,500 AT END OF FEBRUARY, WHILE UNFILLED JOB OFFERS DROPPED PRECIPITOUSLY TO 121,700 - THE LOWEST LEVEL IN FOUR YEARS. ON BASIS OF AVAILABLE

DATA, WE CALCULATE SEASONALLY-ADJUSTED UNEMPLOYMENT
IN FEBRUARY AT ROUGHLY 3.8 PERCENT OF LABOR FORCE
(SEE PARIS A-535 OF 1974 FOR METHODOLOGY).

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LABOR MARKET INDICATORS
(SEASONALLY ADJUSTED; IN THOUSANDS; END-OF-MONTH)

| | SEP | OCT | NOV | DEC | JAN | FEB |
|------------|-------|-------|-------|-------|-------|-------|
| REGISTERED | | | | | | |
| UNEMPLOYED | 498.5 | 558.3 | 629.3 | 660.0 | 698.6 | 727.5 |

| | SEP | OCT | NOV | DEC | JAN | FEB |
|--------------|-------|-------|-------|-------|-------|-------|
| UNFILLED JOB | | | | | | |
| OFFERS | 179.5 | 154.0 | 132.7 | 144.4 | 153.9 | 121.7 |

EST. OVERALL
UNEMPLOYMENT
(AS PERCENT OF
LABOR FORCE) 2.6 2.9 3.3 3.4 3.6 3.8

AS SEEN FROM TABLE, STEADY CLIMB IN UNEMPLOYMENT
RATE HAS SHOWN NO SIGN OF ABATING SINCE IT BEGAN
LAST FALL (ESTIMATED RATE HAD HOVERED AT 2.3-2.4 LEVEL
FROM JANUARY THROUGH AUGUST 1974). MOST DISTURBING
ASPECT, HOWEVER, IS SHARP DROP OF SOME 20 PERCENT IN
JOB VACANCIES DURING FEBRUARY.

WHILE THIS INDICATOR HAD
BEGUN TO SHOW IMPROVEMENT FROM OCTOBER TO JANUARY (A
TREND INTERPRETED AS PRECURSOR TO DECLINE IN ACTUAL
UNEMPLOYMENT; SEE PARIS 4673), LATEST FIGURES INDICATE
EVEN THIS FAINT HOPE HAS NOW EVAPORATED.

5. TRADE SURPLUS REGISTERED IN FEBRUARY -

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FRANCE'S TRADE BALANCE WAS IN SURPLUS BY 894 MIL-
LION FRANCS IN FEBRUARY (SEASONALLY ADJUSTED, FOB-FOB),
WITH EXPORTS EXCEEDING IMPORTS BY NEARLY 5 PERCENT. ON
BASIS OF NEW METHOD OF ADJUSTMENT FOR SEASONAL VARIA-
TIONS, FEBRUARY TRADE SURPLUS WAS FIRST RECORDED IN OVER
A YEAR. SEASONALLY ADJUSTED EXPORTS INCREASED 2 PERCENT
FROM JANUARY TO 19.7 BILLION FRANCS IN FEBRUARY;
IMPORTS DECLINED 3 PERCENT TO 18.8 BILLION FRANCS.

FRENCH FOREIGN TRADE
(NEW SEASONAL ADJUSTMENT; IN
BILLIONS OF FRANCS, FOB-FOB)

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SEP OCT NOV DEC JAN FEB

IMPORTS 21.0 20.5 20.1 19.6 19.4 18.8

EXPORTS 19.5 18.3 19.9 19.5 19.3 19.7

BALANCE -1.5 -2.2 -0.2 -0.1 -0.1 0.9

WITH FEBRUARY FIGURES (SEASONALLY ADJUSTED, NEW BASIS), IMPORTS REGISTERED DECLINE FOR SEVENTH STRAIGHT MONTH WHILE EXPORTS HAVE DEVELOPED UNEVENLY OVER SAME PERIOD. THUS, WHILE TRADE BALANCE ON NEW BASIS APPEARS TO HAVE DEVELOPED MORE FAVORABLY FROM OCTOBER THROUGH FEBRUARY, IMPROVEMENT MAY NOT BE VERY DURABLE AS DECLINE IN IMPORTS (GENERALLY ASSOCIATED WITH SLOWDOWN IN FRENCH ECONOMY) CAN BE EXPECTED EVENTUALLY TO BEGIN LEVELLING OFF AT SOME CRITICAL LEVEL OF "ESSENTIAL" IMPORT REQUIREMENTS; WHEN THAT POINT REACHED, TRADE ACCOUNT COULD RETURN TO RED IN BIG WAY UNLESS EXPORT PERFORMANCE IMPROVES. APPARENTLY REFLECTING THOSE FEARS, FOREIGN TRADE MINISTER NORBERT SEGARD ON MARCH 14 DESCRIBED FRANCE'S FOREIGN TRADE POSITION AS "VERY FRAGILE", WITH ABSOLUTE GOF PRIORITY BEING GIVEN TO PROMOTION OF SALES ABROAD.

6. FRENCH COMMODITY IMPORT BILL CONTINUES DECLINE -

THE COST OF PRIMARY PRODUCTS IMPORTED BY FRANCE DECLINED 1.5 PERCENT IN FEBRUARY, CONTINUING DOWNWARD TREND IN SUCH PRICES FOR TENTH MONTH. OVERALL INSEE (NATIONAL STATISTICS INSTITUTE) PRICE INDEX FOR PRIMARY PRODUCTS IMPORTED BY FRANCE (BASE 1968 AS 100) DROPPED FROM 176.9 IN JANUARY TO 174.3 IN FEBRUARY, RETURNING TO LEVEL LAST RECORDED IN SUMMER OF 1973.

7. 1974 HOUSING STARTS OFF BY 1 PERCENT -

TOTAL HOUSING STARTS IN 1974 WERE 550,800 OR 1 PERCENT BELOW THE 1973 LEVEL, ACCORDING TO LATEST GOF STATISTICS. UNITS COMPLETED TOTALED 530,000, AN INCREASE OF 6 PERCENT FROM PREVIOUS YEAR.
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8. OTHER REPORTS SUBMITTED DURING PERIOD -

TELEGRAMS

5995 DIMMER PROSPECTS FOR FRENCH
ECONOMY MARCH 7, 1975

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6063 BANK OF FRANCE OFFICIAL
ON EXCHANGE MARKETS MARCH 10, 1975

6758 ADB ANNUAL MEETING MARCH 17, 1975

6939 EXPORT PROMOTION INCLUDED
IN SIX SMALL STEPS TO
STIMULATE FRENCH ECONOMY
ANNOUNCED BY FINANCE
MINISTER MARCH 18, 1975

AIRGRAMS

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A-110 FRENCH FOREIGN EXCHANGE
HOLDINGS MARCH 7, 1975

A-120 FRENCH RESERVES IN
FEBRUARY 1975 MARCH 13, 1975

A-123 FRENCH FOREIGN EXCHANGE
HOLDINGS MARCH 14, 1975

A-126 TRADE WITH COMMUNIST AREAS MARCH 17, 1975
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